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C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 005045

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TAGS: [ECON](#) [EINV](#) [TW](#)

SUBJECT: UMC CHAIRMAN ANNOUNCES RESIGNATION

REF: A. TAIPEI 1343

[B](#). TAIPEI 1402

[C](#). TAIPEI 1924

Classified By: AIT Director Douglas H. Paal, Reason 1.4 d

[1](#). (SBU) Summary: United Mircoelectronics Corporation (UMC) Chairman Robert Tsao announced December 29 that he would resign in March 2006 after a public and shrill exchange of accusations with Taiwan authorities over UMC's revised earnings announcement earlier this month and alleged insider trading by the firm's management. In addition, Taiwan authorities continue investigations into whether UMC's relationship with PRC foundry He Jian violated restrictions on semiconductor investment in the PRC. Tsao had previously threatened to resign over the He Jian case. Tsao's resignation may help resolve some of the firms legal

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problems in a way that protects the interests of stockholders. End summary.

[2](#). (U) UMC Chairman Robert Tsao announced December 29 that he would resign in March 2006. UMC is the world's second largest contract manufacturer (foundry) of semiconductors. Tsao's resignation comes after a public and increasingly

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shrill exchange of accusations with Taiwan authorities over UMC's announcement of revised earnings earlier this month and alleged insider trading by the firm's management.

[3](#). (U) UMC announced a revised earnings report for 2004 on December 14, which increased the firm's losses for the year from NT\$ 4.7 billion to NT\$ 14.2 billion (USD 143 million and USD 432 million respectively at current exchange rates). The revision was made in response to a September 23 letter from the U.S. Securities and Exchange Commission asking it to revise its reports. However, UMC released the revised figures in the United States five hours before releasing them in Taiwan, leading Taiwan's Stock Exchange (TSE) to fine the firm NT\$ 50,000 (about USD 1,500) for the late disclosure, because it harmed the interests of stockholders in Taiwan.

[4](#). (U) In response, UMC purchased half-page ads that appeared in several Taiwan dailies on December 28, criticizing Taiwan financial authorities for their reaction to the revision. The advertisement ended with speculation that Taiwan was turning into a "country in disorder" (luan bang) and stated UMC would consider delisting from the Taiwan Stock Exchange and listing elsewhere. The same day Taiwan's Financial Supervisory Commission (FSC) responded by revealing that it was investigating UMC for insider trading, claiming that UMC management sold shares in the company before the revised loss figures were announced. A TSE spokesman also publicly pointed out that UMC's actions

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would affect shareholders' views of the firm's credibility. UMC's stock dropped 3.1 percent the day the ad appeared. Legislative Yuan members from both the pan-green and pan-blue camps criticized Tsao and UMC's handling of the revision announcement.

[5](#). (U) In addition, UMC faces continuing legal problems due to its relationship with PRC foundry He Jian (reftels). Taiwan's Ministry of Economic Affairs (MOEA) Investment Commission and Hsinchu County Prosecutors Office are investigating whether UMC violated Taiwan regulations that restrict semiconductor investment in the PRC. UMC and He Jian have acknowledged that UMC provided substantial management assistance to He Jian, but claim that no funds or technology was transferred and no Taiwan regulations were broken.

[6](#). (U) Taiwan's FSC fined Tsao in April for failure to notify shareholders of its arrangement with He Jian. Later in the month, UMC proposed that it be allowed to legalize its investment in He Jian by taking a 15 percent stake in

the firm in exchange for its previous assistance. Tsao purchased advertisements in June criticizing the government over the handling of the UMC-He Jian case and offered to resign if found guilty of illegally investing in the PRC. The firm is still waiting for a response from the MOEA's Investment Commission to its proposal to take 15 percent of He Jian's stock as well as further word on whether continuing investigations will result in additional penalties.

17. (C) Comment: Tsao is one of Taiwan's most successful business leaders, but has become increasingly controversial. Another prominent Taiwan industrialist told the Director that Tsao's problems began from poor habits of corporate governance. Two others told him that Tsao's mistakes have opened him to Chen administration vengeance for his longstanding support of political rival Soong Chu-yu. Tsao may have legitimate reasons to be frustrated by the way Taiwan authorities have handled accusations against UMC, but his resignation will likely help UMC overcome its legal problems. It should end what appears to have become a personal feud with Taiwan officials in UMC's name. It should facilitate the Taiwan government's ability to handle accusations against UMC's management in a manner that doesn't unnecessarily harm the interests of UMC's shareholders or cause excessive damage to one of Taiwan's most prestigious firms.

PAAL